



Audit



Entertainment



Money

# Proposed: changes to the accounting production costs

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To align the accounting for production costs for episodic content produced for television and streaming services with the accounting for production costs for film, the FASB issued the proposed ASU, Entertainment – Films – Other Assets – Film Costs (Subtopic 926-20) and Entertainment – Broadcasters – Intangibles – Goodwill and Other (Subtopic 920-50): Improvements to Accounting for Costs of Films and License Agreements for Program Materials (a consensus of the FASB Emerging Issues Task Force). The proposed amendments would apply to broadcasters and entities that produce and distribute films and episodic television series.



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Under the existing accounting guidance in ASC 926-20 related to episodic content, such as television series airing a new episode each week, production costs are capitalized subject to a constraint based on contracted revenues in the initial and secondary markets. Specifically, production costs for episodic television series are capitalized up to the amount of revenue contracted for each episode in the initial market, until either persuasive evidence exists that revenue from secondary markets will occur or an entity can demonstrate a history of earning revenue in that market. For films, however, all production costs specified in ASC 926-20 are capitalized. Production costs that are capitalized are referred to as “content assets.”

Under the proposal, entities would apply the same accounting guidance to production costs for episodic content that is applied to production costs for films, removing the existing constraint on capitalizing production costs for episodic content that is based on contracted revenues in the initial and secondary markets.

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The proposal would also amend the existing guidance related to

- amortization of content assets, including a proposed requirement to reassess the estimates of the use of a film or a film group, and to account for any resulting changes prospectively
- impairment of content assets, including (1) the unit of account used for impairment evaluations, (2) impairment indicators, and (3) the model used for measuring impairment
- derecognition of a film that is abandoned either because the film project is abandoned before release or because the film is removed from the entity's offering for the foreseeable future
- presentation, classification, and disclosure of content assets

The Board will determine the effective date of the proposed amendments, and whether entities can early adopt the new guidance, after it considers stakeholders' feedback on the proposal. The proposed amendments related to capitalizing film costs would be applied prospectively to film costs that are incurred on or after the effective date of the proposed amendments. The proposed amendments related to the impairment, amortization, presentation, and disclosure guidance would be applied in the first period that includes the effective date.

The FASB staff also issued proposed taxonomy improvements related to the proposed ASU.

Source:

Grant Thornton, On the Horizon November 15, 2018.

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